

# Slade's Ferry Bank

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July 11, 2004

Ms. Jennifer Johnson, Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, N.W.  
Washington, DC 20551  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

**SUBJECT: Risk-Based Capital Standards: Trust Preferred Securities and the Definition of Capital, Docket No. R-1193**

Dear Ms. Johnson:

As President and Chief Executive Officer of Slade's Ferry Bank, I appreciate the opportunity to comment on the Board of the Federal Reserve System's ("Board") proposal to allow the continued inclusion of outstanding and prospective issuances of trust preferred securities in Tier 1 capital for bank holding companies subject to new limitations. Trust preferred securities are favored by our peer banks because of their ease of use and cost efficiency.

Under the proposal, the Board would allow BHCs to continue applying the rules approved in 1996 which permit up to 25% of trust preferred securities and cumulative perpetual preferred stock in Tier 1 capital. After March 31, 2007, BHCs would have to deduct goodwill from their Tier 1 capital before calculating the 25% limit. The amount of trust preferred securities and certain other elements in excess of the limit could be included in Tier 2 capital, up to 50% of the bank's Tier 1 capital. Internationally-active BHCs would generally be expected to limit trust preferred securities and certain other capital elements to 15 percent of Tier 1 capital elements, net of goodwill.

We commend the Board for its efforts to strengthen the definition of regulatory capital for bank holding companies while acknowledging that trust preferred securities are an important tool for financial institutions. As a medium-sized community bank, we utilize trust preferred securities to free up and/or lower the cost of after-tax capital. We commend the Board for continuing to permit the inclusion of trust preferred securities in Tier 1 capital.

We wish to comment on the proposed three-year transition period for BHCs to meet the new stricter requirements. We agree with the Massachusetts Bankers Association's belief that a five year transition would provide BHCs more time to accommodate longer-term

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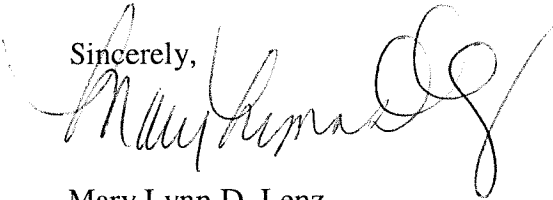
binding contracts dating back to as early as 1996 when the Board initially permitted the use of trust preferred securities in Tier 1 capital. We also agree with the MBA's belief that the Board does not need to formalize the standard that internationally active banks limit their inclusion of innovative products such as trust preferred securities to 15% of Tier 1 capital. As the Board has acknowledged in its proposal, internally-active large banking organizations are subject to more rigorous market discipline and do not exhibit excess reliance on trust preferred securities or other similar instruments.

This ruling is particularly meaningful to Massachusetts banks in mutual governance form which would otherwise rely on retained earnings as the sole means of capital. By utilizing trust preferred securities, mutual banks can pursue growth strategies which require extra capital without changing their mutual status: a critical benefit for local communities and banks alike.

We encourage the Board to work with other banking regulators to encourage continued acceptance on the treatment of trust preferred securities in Tier 1 capital.

Thank you for the opportunity to submit comments on the proposal.

Sincerely,

A handwritten signature in dark ink, appearing to read "Mary Lynn D. Lenz", written over a horizontal line.

Mary Lynn D. Lenz  
President/CEO

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